

MEMORANDUM FOR:

Hold for Mr Hustead

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United States of America
**Office of
Personnel Management**

Washington, D.C. 20415

December 18, 1979

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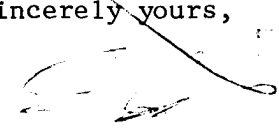
Mr. Harvey E. Fitzwater
Director of Personnel
Central Intelligence Agency
Washington, DC 20505

Dear Mr. Fitzwater:

We recently prepared a set of three papers on the possible impact of Social Security coverage on the **fringe** benefits of federal employees. This was done at the request of the Universal Social Security Coverage Study Group to provide them with information needed to report to Congress on the desirability and feasibility of Social Security coverage for all workers in the United States.

I believe the general concepts would apply to all Federal retirement systems which do not have Social Security coverage now. In the meantime, if I can answer any questions or be of other assistance please let me know.

Sincerely yours,



Edwin C. Hustead
Chief Actuary

An Alternative
to Extending Social Security Coverage
to Federal Employees

Preface

This report is one of three prepared by the Office of the Actuary of the Office of Personnel Management for the Universal Social Security Study Group. The Study Group was charged by Secretary Califano, DHEW, as mandated under Sec. 311(a) of P.L. 95-216 (1977), to undertake a study of (1) "... the feasibility and desirability ..." of universal Social Security coverage; (2) "alternative methods of accomplishing such coverage"; and (3) "appropriate alternatives to extending coverage" to non-covered employees (for the most part, federal, State, local and non-profit-organization employees).

The other two papers discuss ways of integrating federal fringe benefits with Social Security if the latter coverage is made universal and present detailed analysis of the financial impact on general revenues and individuals of integrating with Social Security. This paper presents alternatives if Social Security coverage is not mandated. One obvious alternative is to do nothing and let the two systems continue to run independently as they have for forty years. Other alternatives, discussed below would correct some of the gap and overlap problems that have occurred because the two systems are not co-ordinated.

The reports do not include a study of the merits and demerits of extending Social Security coverage to federal employees. Rather they concern: various ways of extending Social Security coverage to federal employees, if coverage is to be extended; alternatives to extending Social Security coverage to federal employees; and an analysis of what the formulas do to people.

Forward

In the study of alternatives to extending Social Security coverage to federal employees, we had at our disposal other studies of such alternatives. These studies had been made at the request of former Presidents, the concerned congressional committees, and the Departments and agencies most involved with the subject. They are summarized in Appendix A of this report.

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One alternative that has been discussed in various forms before, and which we have chosen to present in still another manner here, consists of two parts:

- Part I : Closing Gaps in Protection, and
- Part II: Eliminating Windfall Benefits

Gaps-in-Protection Problem

Because most federal civilian employment is not covered under Social Security, employees leaving federal employment usually lose the CSR rights that they had earned. For example, workers who leave federal service before they have worked 5 years do not meet the minimum requirements for protection under civil service retirement. This accounts for some 37 percent of federal employees.

And those employees who leave federal employment after 5 years or more of federal work, but before age 62 -- about 26 percent -- and withdraw their contributions, lose their rights to all benefits under civil service retirement. Over 50% of entering employees will either withdraw before 5 years, or withdraw later but take a refund instead of a deferred annuity. Of those who leave federal service before age 62 with over 5 years' service under CSR only the minority who leave their contributions in the CSR Retirement fund retain any protection (annuity beginning at age 62) under the CSR system.

Of course, immediate benefits are also payable to eligible current employees or their qualified survivors in the event of death, disability, voluntary retirement and involuntary retirement. The percentages of each of the categories is shown in Appendix B. However, even though they qualify for an annuity beginning at age 62, all employees who leave the federal service before age 62 cease to have survivor and disability protection based on their years of federal service. These workers not only lose their survivor and disability protection under the civil service retirement system, but they may also be without Social Security protection, either because they never worked under Social Security or because they have not worked under Social Security for some time.

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Windfalls Problem

On the other hand, some persons may qualify for benefits under both systems. Although there is nothing improper in and of itself about an employee receiving both CSR and Social Security benefits, the combination of these benefits in some instances is unreasonably high in relation to the employee's former total earnings.

Social Security is designed to provide a relatively high replacement of former earnings to low-paid earners. Under present law, the Social Security benefits formula for 1979 provides 90 percent of the first \$180 of average updated monthly earnings, plus 32 percent of average updated monthly earnings above \$180 up to \$1085, plus 15 percent of average updated monthly earnings above \$1085. (The dollar amounts in this formula will automatically increase each year as wage levels rise.)

In addition, Social Security pays a minimum monthly benefit of \$122 a month to an insured retired worker who comes on the rolls at or after age 65; a minimum of \$183 for such an insured worker with one dependent (a child, or a wife age 65 or over); and corresponding minimum benefits for surviving dependents.

As a result of the weighted benefit formula and minimum benefits, persons who work in employment not covered by Social Security, but have enough Social Security coverage from a second job to qualify for benefits can and sometimes do get the advantage in the benefit-earnings relationship that really is intended for workers whose only earnings are from employment covered by Social Security.

Part I - Closing Gaps in Protection

General Description

This part of the alternative to universal coverage would provide for transfers of CSR earnings credits to Social Security for workers with some federal employment who leave the federal service and are not eligible for immediate CSR benefits. This would apply, for instance, to those who become disabled with less than 5 years service or resign without an immediate annuity.

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A two-way exchange of credits would have the advantage of additional portability of earnings credits. However, since the one-way approach would not charge the CSR trust funds to provide benefits to persons not covered under and paying into the CSR system, nor change the provisions of the CSR system relative to career employees who stay in the federal service, it may lessen the objections which have been raised by employee organizations against plans which would make such charges and/or changes. Only those employees who leave the federal service, and stand to benefit, would be affected.

Provisions and Rationale

This approach would fill major gaps in present survivor, disability, and retirement protection of employees who spend part of their working lifetimes in federal employment, but do not have protection under the CSR system when they leave federal employment.

The following federal employees suffer gaps in their CSR protection:

- (1) An employee dies before 18 months of CSR service.
- (2) An employee becomes disabled before 5 years of CSR service.
- (3) An employee resigns before 5 years of CSR service.
- (4) An employee, after 18 months of CSR service, resigns, and then dies.
- (5) An employee, after 5 years of CSR service, resigns, and then becomes disabled or dies before age 62.
- (6) An employee, after 5 years of CSR service, resigns, and then obtains a refund of his or her CSR contributions before age 62.

Under current law, in these situations the matching employer contribution is forfeited, and the only payments made are (1) refunds of employee contributions (plus interest, if less than five years service) and (2) an annuity at age 62 if an otherwise eligible employee returns to the federal service for at least one year and refunds money withdrawn.

The CSR law might be amended to both transfer CSR credits to Social Security and conform to ERISA standards. We acknowledge that this is a difficult assignment -- particularly since both changes would need to be accomplished simultaneously -- but it would assure all employees (1) a reasonable rate of interest on their contributions, (2) the employer's (Government's) contributions as credit toward Social Security contributions due upon transfer, and (3) for a person with 5 or more years CSR service,

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a guaranteed annuity at age 62 regardless of whether the employee returns to the federal service or refunds any money he or she has withdrawn. Further, it treats the federal retirement plan in the same way as private pensions are currently treated.

The following procedure describes the changes to be made to effect a one-way transfer of funds and, concurrently, conform to ERISA guidelines. Other options -- for example, a two-way transfer, or a transfer without ERISA conformity -- would be modifications of these steps.

1. Under this alternative, earnings credits for CSR employment would be transferred to Social Security as soon as an employee for any reason, resigns from federal service without being entitled to an immediate CSR annuity.
 - (a) It would be too expensive to wait until one of the risks insured against materializes (except in those situations where the risk (e.g., death) occurs simultaneously); it would be like buying fire insurance after the fire.
 - (b) If Social Security benefits were already payable the addition of CSR credits could increase the amount of those benefits.
 - (c) If Social Security benefits were not already payable, the addition of CSR credits could be sufficient to effect benefit eligibility.
 - (d) If the addition of CSR credits were not sufficient to effect Social Security benefit eligibility, subsequent earnings under Social Security could effect it.
2. An amount equal to employee and employer Social Security taxes that would have been paid on the transferred earnings credits if the earnings had been covered by Social Security (plus interest) would be credited to Social Security.
 - (a) An amount equal to the Social Security taxes the employee would have paid if his earnings had been covered by Social Security would be deducted from refunds payable to him or his survivors, and together with a matching amount paid by the Government as employer be credited to Social Security.
 - (b) If the employee had a potential interest in CSR annuity beginning at age 62 valued in excess of the combined employee and employer taxes transferred to Social Security, that excess amount would remain to his or her credit. For example:
 - 1) Value of CSR annuity at resignation ----- \$100,000
 - 2) Total employee CSR contributions at that time -- \$15,000

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- 3) Refunded amount credited to SS ----- \$10,000
- 4) Matching "employer" amount credited to SS ----- \$10,000

Since a total of \$20,000 would have been credited to Social Security, a potential interest in CSR annuity, payable at age 62, valued then at \$80,000 (\$100,000 minus \$20,000) would be left.

- (c) The employee or his survivors also can withdraw the \$5,000 in CSR contributions remaining to his credit and still have a potential interest in CSR annuity valued then at \$75,000.
- (d) If the employee returns to the federal civil service before any benefits are payable under Social Security based on the transferred earnings credits, all of those earnings credits would be recredited to CSR and the \$20,000 credited to Social Security would be re-credited to CSR.
- (e) If Social Security benefits were paid to or on behalf of the employee in the interim, the part of the benefit cost attributable to transferred credits (and, therefore, not recreditable) would be in the proportion that the dollar amount of transferred earnings credits bears to the dollar amount of all earnings credits on which the benefits were based.

For example, if an individual has total earnings of \$90,000 in Social Security covered work and \$10,000 in transferred earnings credits, the cost of any paid benefits attributable to Federal employment would be 10 percent of the total cost. If any of the transferred employee and employer contributions remain after 10 percent of the total cost is subtracted, that remaining amount would be recredited to CSR.

- 3. Transferred CSR earnings would not be credited in excess of the Social Security contributions and benefits base (C + B base).
 - (a) If the CSR earnings when added to Social Security earnings already credited for a particular year, exceeded the C + B base for that year, the employee or survivor may apply to the Internal Revenue Service for a refund of the excess amount.
 - (b) This is the procedure used now when an employee's earnings exceed the C + B base because he or she has jobs with several employers under Social Security.

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Effective Date

This option (Part I) would be applicable to all federal employees hired after enactment of the proposal, and to all current employees (or their survivors) who elect it within a designated period after enactment.

- (a) This would assure that any employee potentially affected would know all the possibilities that exist.
- (b) Since current employees would need to make an election within a limited period, the chances of adverse selection would be reduced.
- (c) To the extent that Social Security coverage is not elected by current federal employees leaving Government service, gaps in their retirement, disability and survivor protection can occur. However, the choice would be theirs. Those current employees who do not want to participate would not need to do so, but neither would they have any basis to criticize the Government for either not offering them the new protection, or going back on its promises regarding their current protection.

Part II - Eliminating Windfall Benefits

General Description

According to former Social Security Commissioner Robert M. Ball^{*/} Social Security is intended to provide a relatively high replacement of former earnings to low-paid workers on the assumption that they have little margin for reduction in their standard of living. It accomplishes this by weighting its benefit formula in favor of workers with a low average of lifetime earnings.

However, such a low average also is produced when a person works in employment covered by Social Security (1) just long enough to become entitled to benefits either before or after a career in a job not covered by Social Security, or (2) at minimum wages intended to supplement wages from a job not covered by Social Security. In these cases, the Social Security benefit computed on the basis of his or her relatively few years of Social Security-covered earnings, or low level of Social Security-covered earnings, averaged over a working lifetime, results in an apparent low average of "lifetime" earnings that qualifies the employee for weighted Social Security benefit. This is what is meant by a "windfall" benefit.

*/ Verbally

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Whether or not the worker is appropriately or inappropriately classified as a low-paid worker for purposes of qualifying for weighted Social Security benefits, depends on his former earnings in non-covered jobs, as well as his former earnings in jobs covered by Social Security. A proper measure would take account of both sources. That is the object of this proposal.

On the other hand, it should be pointed out and emphasized that there is nothing improper about federal employees supplementing their pay and/or annuities by working in jobs covered by Social Security, and qualifying for Social Security benefits based on that work, simultaneously with, before, or after, their federal employment. The idea is to preserve this right while at the same time eliminating "windfalls".

There are a number of ways to achieve these dual objectives. Two are presented in this Part. They illustrate the extremes of impact on employees and, inversely, on the Social Security contribution rate.

Provisions and Rationale

The rationale for eliminating inappropriate "windfall" benefits described under both approaches described here is that the larger the amount of total earnings is from both Social Security and non-Social Security sources, the smaller the weighting element for Social Security benefits should be.

For purposes of comparing the effect of the two approaches on federal retirees, we have used an example of five (5) retirees with combinations of CSR annuity and Social Security-PIA as follows:

	<u>CSR</u>	<u>PIA</u> */	<u>TOTAL</u>
1)	\$ 250	\$122	\$ 372
2)	250	400	650
3)	600	250	850
4)	1000	122	1122
5)	1000	486	1486

*/ Primary insurance amount -- the amount on which all Social Security benefits are based.

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Approach No. 1^{*/}

Under the first approach, the person's PIA would be reduced by \$1 for each \$3 that his or her CSR annuity exceeds the average SS benefit, but not below 32% of the AIME on which the PIA is based.

- (a) A worker's PIA would be reduced by one-third of the amount that any annuity the worker receives based on noncovered federal employment exceeds the average social security retired worker's benefits for new retirees (estimated at \$310 for June 1979). If the annuity does not exceed the average Social Security benefit, the PIA would not be reduced.
- (b) The \$1 for each \$3, and average Social Security benefit elements are somewhat arbitrary, but nonetheless are reasonable and effective. The 32% of AIME factor represents the benefit-earnings replacement ratio established in the Social Security benefit formula for average wage earners.

The effect of this formula on the 5 retirees described above is shown in Table No. 1 on the following page.

^{*/} FY 1980 Budget Proposal

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Table No. 1

Offset under FY 1980 Budget Proposal

	Employee				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
a) CSR annuity	\$250	\$250	\$600	\$1000	\$1000
b) SS-PIA	\$122	\$400	\$250	\$ 122	\$486
c) Average SS Benefit for New Retirees	\$310	\$310	\$310	\$ 310	\$310
d) Amount CSR (a) exceeds <u>average</u> SS benefit (c)	ZERO	ZERO	\$290	\$ 690	\$690
e) One-third of excess (d)	ZERO	ZERO	\$ 96	\$ 230	\$230
f) SS-PIA (b) after reduced by 1/3 excess (e)	\$122	\$400	\$154	ZERO	\$256
g) AIME on which PIA is based	\$100	\$924	\$455	\$100	\$1095
h) Guarantee equal to 32% AIME (g)	\$ 32	\$296	\$146	\$ 32	\$350
i) SS-PIA after offset (greater of (f) & (h))	\$122	\$400	\$154	\$ 32	\$350
j) Amount of offset	ZERO	ZERO	\$ 96	\$ 90	\$136
k) Initial SS Replacement	122%	43%	55%	122%	44%
l) Proposed replacement	122%	43%	34%	32%	32%
m) Total benefits before offset	\$372	\$650	\$850	\$1122	\$1486
n) Total benefits after offset	\$372	\$650	\$754	\$1032	\$1350

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Approach No. 2

Offset under Robert J. Myers Proposal^{*/}

Under the second approach, the person's PIA would equal the larger of (1) the difference between a phantom PIA based on total (SS and non-SS) earnings up to the Social Security earnings base and the PIA based on earnings not covered by Social Security up to the Social Security earnings base, or (2) the difference between Social Security-PIA and CSR annuity.

The formula used for this second approach would be as follows:

New PIA is larger of: 1) PIA based on total earnings less PIA
based on earnings not covered by SS

or

2) PIA based on SS earnings less CSR
annuity.

Unlike approach No. 1, this formula requires facts not readily available at the present time. However, the facts should be available prospectively, since the Internal Revenue Service has promised the Social Security Administration information on total annual earnings in connection with current Social Security provisions requiring the use of annual total earnings for retirement test and insured status purposes. In addition, this formula assures a larger savings than the first approach, and impacts on all CSR annuitants who also get Social Security benefits.

The effect of this formula on the 5 retirees described above is shown in Table No. 2 on the following page.

^{*/} Robert J. Myers, former chief actuary of Social Security Administration, in a paper to be published by the Society of Actuaries entitled "An Alternative Approach to Solving the Problems of Coverage under Social Security not being Universal"

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Table No. 2

Offset under Robert J. Myers Proposal

	<u>1</u>	<u>2</u>	<u>Employee</u> <u>3</u>	<u>4</u>	<u>5</u>
a. SS-PIA	\$122	\$ 400	\$ 250	\$ 122	\$ 486
b. SS-AIME*	\$100	\$ 924	\$ 455	\$ 100	\$1095
c. CSR annuity	\$250	\$ 250	\$ 600	\$1000	\$1000
d. CSR H1 3	\$446	\$ 446	\$1071	\$1786	\$1786
e. CSR-AIME*	\$335	\$ 335	\$ 803	\$1095	\$1095
f. CSR-PIA	\$212	\$ 212	\$ 361	\$ 486	\$ 486
g. Total AIME*	\$435	\$1095	\$1095	\$1095	\$1095
h. Total PIA	\$244	\$ 486	\$ 486	\$ 486	\$ 486
i. Recomputed PIA (h) less (f)	\$ 32	\$ 274	\$ 125	ZERO	ZERO
j. Amount of offset (a) less (i)	\$ 90	\$ 126	\$ 125	\$ 122	\$ 486
k. Initial % replacement	122%	43%	55%	122%	44%
l. New % re- placement	32%	30%	28%	NONE	NONE
m. Total benefits before offset	\$372	\$650	\$ 850	\$1122	\$1486
n. Total bene- fits after offset	\$282	\$524	\$ 725	\$1000	\$1000

* The AIME--for SS alone, CSR alone, or for the total of both--is based on earnings up to the maximum SS earnings creditable in a given year. The average of all maxima creditable for a 1979 retiree is \$1,095 a month.

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Comparison of the Two Approaches

	<u>Employee</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Initial SS Replacement of AIME	122%	43%	55%	122%	44%
Replacement under FY 1980 Budget Proposal (Table No. 1)	122%	43%	34%	32%	32%
Replacement under RJM Proposal (Table No. 2)	32%	30%	27%	None	None

Another comparison can be made between the two approaches on replacement of total earnings by combined benefits. The effect is as follows:

	<u>Employee</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Initial Replacement of Total (SS and nonSS) earnings by combined benefits	86%	52%	68%	78%	61%
Replacement under FY 1980 Budget Proposal (Table No. 1)	86%	52%	60%	72%	55%
Replacement under RJM Proposal (Table No. 2)	65%	42%	58%	69%	41%

Effective Date

Unlike Part I, Part II does not provide additional benefit protection. Instead, it clarifies and tightens the application of the provision for weighted benefits under Social Security to make certain that it applies -- as intended -- only to benefit workers with low earnings over their lifetimes. Consequently, Part II should become fully effective as soon as possible -- perhaps the first January following enactment.

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Conclusion

The options presented here are submitted as illustrations of what can be done (1) instead of extending Social Security coverage to federal employees, (2) to prepare for extending Social Security coverage to federal employees, or (3) together with extending Social Security coverage to federal employees. In other words, they can be treated as (1) an alternative to, (2) a "first step" toward or (3) a permanent part of universal Social Security coverage.

Although each part is self-sufficient, only the total package produces the special balance of cost to savings, and liberalizations to deliberalizations, that may be necessary for passage of either part.

Appendix A

Studies Concerning Social Security Protection for Federal Civilian,
State and Local, and Nonprofit Organization Employees

Studies by Federal agencies, special committees, and Advisory Councils with summaries of the recommendations:

1948 Advisory Council on Social Security--Recommended that social security coverage be extended immediately to Federal employees who were excluded from coverage under the civil service retirement (CSR) system. As a temporary measure designed to give protection to the short-term Government worker, the Council also recommended that the wage credits of all those who died or left Federal employment with less than 5 years' service be transferred to social security. Also, it was recommended that the Congress direct SSA (and the other agencies concerned) to develop a permanent plan for providing social security coverage for Federal civilian employees with protection supplementary to social security provided under Federal staff-retirement systems.

The Committee on Retirement Policy for Federal Personnel (the Kaplan Committee), 1954--Recommended specific plans under which virtually all personnel of the Federal Government (both civilian and military) would be covered under social security. Under the plan applicable to the CSR system, the civil service benefits and contributions would have been reduced to take into account that social security benefits and contributions would be payable, but the overall protection afforded civil service employees would have been substantially improved.

1955 Advisory Council on Social Security--Recommended a transfer-of-credit plan, under which credit for the Federal employment of workers who die, become disabled, or leave work covered under the CSR system and are not eligible for protection under that system would be transferred to social security.

Joint Report of the United States Civil Service Commission and the Social Security Administration to the Committee on Ways and Means (1965)--This report, in response to a request from the Committee, recommended a transfer-of-credit plan, under which credit for the Federal employment of workers who die, become disabled, or leave work covered under the CSR system and are not eligible for protection under that system would be transferred to social security.

August 16, 1978

Social Security Administration

Report of the President's Cabinet Committee on Federal Staff Retirement Systems (1966)--Recommended that:

- a. employees subject to the CSR or the Foreign Service retirement systems who die, become disabled, or leave the Federal service and do not have protection under the staff-retirement system have their credits under the staff-retirement system transferred to social security;
- b. employees and their survivors who become eligible for benefits under either of these staff-retirement systems be guaranteed that the benefit amount they receive under the staff system (or, if they are also eligible for social security benefits, under the staff-retirement system and social security together) be at least at the level that would be payable if their Federal service had been covered under social security; and
- c. all present Federal employees who desire the coverage, and all persons who in the future enter or reenter Federal employment that is covered only by a staff-retirement system, be covered under the health insurance provisions of social security.

Report of the Social Security Administration to the Committee on Ways and Means (1969)--Recommended, in response to a request from the Committee, that:

- a. employees subject to the CSR or the Foreign Service retirement systems who die, become disabled, or leave the Federal service and do not have protection under the staff-retirement system have their credits under the staff-retirement system transferred to social security;
- b. employees and their survivors who become eligible for benefits under either of these staff-retirement systems be guaranteed that the benefit amount they receive under the staff system (or, if they are also eligible for social security benefits, under the staff-retirement system and social security together) be at least at the level that would be payable if their Federal service had been covered under social security; and
- c. all present Federal employees who desire the coverage, and all persons who in the future enter or reenter Federal employment that is covered only by a staff-retirement system, be covered under the health insurance provisions of social security.

1971 Advisory Council on Social Security--Recommended that the Congress give consideration to an approach under which earnings credits under social security and the CSR system of a worker who retires, becomes disabled, or dies, would be combined in cases when there is no benefit eligibility under one or either system so that benefits can be paid--under one system or the other--which take into account the worker's earnings under both systems.

1975 Advisory Council on Social Security--Recommended that the Congress develop immediately ways of making the social security system applicable to virtually all gainful employment, giving special attention to those areas of employment in which coordinated coverage under social security and existing staff-retirement systems (State and local, as well as Federal) would assure that benefits were reasonably related to a worker's lifetime earnings and contributions.

"Social Security: Perspectives for Reform," Brookings Studies in Social Economics (1968)--Recommended that social security coverage be extended to all Government employees, and Government employees' pension programs be made supplementary to basic social security protection. Also recommended that if integration along these lines is not considered feasible, civil service workers whose period of employment is insufficient to provide adequate benefits might be given transferable credits to the social security system to guarantee that Government employment would always produce a benefit at least as large as the same employment would produce under social security.

The following independent studies are favorable:

Tilove, Robert. Public Employee Pension Funds, A Twentieth Century Fund Report, Columbia University Press, New York and London 1976--Recommended that:

- a. The social security law should be amended to include all public employees hired in the future.
- b. The provision in the law for coverage termination should be revised to prohibit benefit increases for State and local employees whose social security coverage was terminated or by reducing benefits by an amount for each year of nonparticipation attributable to termination.
- c. Alternatively the Federal Government could enact a universal minimum pension to be provided by all employers, public or private, which would be analogous to a minimum wage.
- d. Coordination with social security could be achieved:
 1. through an "integration" formula--one rate of benefit accrual with respect to salary subject to social security and a higher rate on the excess portion of salary;
 2. through a staff-retirement plan in which the wage base and perhaps the benefit formula would follow every change in social security;

3. through a staff plan that would provide an all inclusive benefit (pension plus social security) which would guarantee fulfillment of specified goals; or
4. through a plan with a formula independent of social security, but subject to a limitation on the total of benefit amounts.

Ball, Robert M., Social Security Today and Tomorrow, Columbia University Press, New York 1978--Recommends extending social security coverage to all State and local and Federal employees. Mr. Ball thinks the logical and desirable solution is to extend regular compulsory coverage to all Federal employees and revamp the civil service retirement system into a supplementary one. As an alternative to making civil service retirement a supplementary system, Mr. Ball suggests having the plans separate but establishing an exchange of credits. Still another alternative would be a divided system allowing employees to choose to stay under the existing system or join a combined plan. New employees would be required to have social security coverage.

Mercer, William M., Withdrawal of Public Employees from the Social Security System, The Mercer Bulletin, December 1976--Stated that "The issue seems to come down to this. Removal from the Social Security system, with all its problems, represents a loss to all of us, certainly for most who leave the system, but also to those of us who do not leave because we are all paying for extensive coverage of ourselves, our parents and our grandparents.

The Social Security system could do more by explaining simply and clearly the benefits available.

The public plans can do more by redesigning their pension plans to coordinate with Social Security, thereby lowering present pension costs and making their pension benefits comparable to private pension plans.

And Congress can do more, by not allowing covered groups to opt out of Social Security."

Myers, Robert J., "Should State and Local Governments Desert the Social Security System Ship?" Tax Foundation's Tax Review, Vol. 37, No. 10, November 1976--Recommends compulsory coverage of all State and local government employees. In view of problems in this proposal, it is recommended that there could be compulsory coverage of all present employees who are not under a retirement plan with all future employees covered mandatorily, regardless of whether they are covered under a retirement plan.

"If it is not possible to have compulsory coverage, the best procedure is to require that, once coverage has been elected, withdrawal should not be allowed.

Yet another approach would be on the benefits side, so as to prevent or ameliorate the windfalls that employees may get when coverage is terminated. One way would be to compute (1) the Social Security benefit based on actual service with the organization that withdrew and (2) such benefit based on such service plus all service with the organization after the termination date and up to age 62 (or prior death or disability) at the prevailing salary rate then. Then, the 'earned benefit' would be computed as: item (2), times the ratio of (3) the total covered wages with the organization before withdrawal to (4) such total wages plus the presumed ones for service after termination. The 'windfall benefit' (the excess of item (1) over the 'earned benefit') would be deducted from the computed total benefit based on all covered employment."

Should Social Security Coverage be Continued for California State Employees?
Commission on California State Government Organization and Economy,
 April 1977--Stated opinion that:

Considering all factors reviewed in this report, it would be in the overall best interest of the State, its employees, its taxpayers, and the Nation as a whole for the State of California to keep its employees in the social security system. Accordingly, the Commission made the following recommendations:

- "1. State employees should not be terminated from social security.
2. The Legislature should urge the federal government to take prompt action to correct the short-term and long-term financing and benefit shortcomings in the social security system.
3. The Legislature should urge the Congress to expand social security to mandatory universal coverage for all employees, including those of the federal government, and to prohibit further withdrawals by public jurisdictions.
4. The Legislature and PERS should take action to improve the integration of the PERS system with social security to provide the best possible benefits at the lowest cost."

Mercer, William M., Report with Respect to the Termination of the State of Alaska from Social Security, June 30, 1976--Found that:

- a. It is not administratively feasible to develop a program of "full replacement" of social security benefits lost.
- b. A virtually infinite range of alternative means of providing additional benefits exists which at least partially serve to replace social security benefits.

Pensions: A Report of the Mayor's Management Advisory Board. (City of New York), April 1976 (Shinn Report)--Stated that social security should not be terminated. Pension system should be modified to be coordinated with social security.

Myers, Robert J., Actuarial Study of Termination of Social Security Coverage by City of San Jose, California, September 1976--Found that contrary to assertions made prior to the termination of social security coverage the cost of the plans was not lower and employees did not receive better overall benefits and take-home pay.

Study of State Compensation Policies and Practices, California State Pension Board, May 1973--Recommended that the State not withdraw from social security. It further recommended that the State base its revision of its benefit program on social security coverage, increasing pension plan benefits in deficient areas, and lowering them in areas of excess. It also recommended increasing take-home pay through reduction of contributions to State benefit plans.

The report stated:

"The recommended revisions outline the same sorts of actions that would be contemplated if Social Security were dropped, namely: reduce some benefits, fill in gaps and increase take-home pay. By taking these actions while retaining Social Security, the State can gain a more satisfactory result by fulfilling the aims of employees while eliminating the disadvantages of leaving Social Security. Furthermore, the development of a balanced benefit program with Social Security coverage will not only solve current practical problems, but will implement in the most economical way the long-range objectives of meeting needs adequately and equitably and of facilitating personnel policy."

OASI Coverage for Public Employees, American Federation of State, County, and Municipal Employees, Madison, Wisconsin, May 18, 1955--Favored social security coverage of employees be supplemented by the pension plan or that the pension plan be "coordinated" with social security with minimum benefit guarantees. (The "coordination plan" contemplated would require only a change in a section of an existing investment law to provide for the division of employee and employer matching contributions and a change in the method of calculating benefits if necessary.)

However, the report opposed interaction between social security and the pension plan which would have required detailed study and complete rewriting of the existing plan with little gain to the covered members; it would have involved repeal of the old system and substitution of a new one. Offset plans were also opposed.

New York State Permanent Commission on Public Employee Pension and Retirement Systems (1976 Coordinated Escalator Plan)--Describes the steps taken by New York State to use social security as the basis for their State retirement plans and closely follows the recommendations made in the Shinn Report.

Grashberger, Friedrich J., "Research Notes: Opting Out of Social Security," Center for Government Research, December 1976--

- a. Concluded that withdrawal from the social security system would be detrimental to the system as a whole.
- b. Recommended the use of social security benefits as basic benefits and the addition of non-social security benefits in amounts sufficient to attain set benefit objectives.
- c. Noted that some State constitutions, New York for example, restrict the lowering of a pension benefit; some legislation may be necessary.
- d. Further recommended that the employees, who have the greatest stake in the issue of terminating social security coverage, should make the decisions.

Summary of Proceedings, Informal Conference on Extension of Old-Age and Survivors Insurance under the Federal Social Security Act to State and Local Employees, Sponsored by Municipal Finance Officers Association, Washington, D.C., November 25, 1940--Recommended:

- a. The extension of Federal insurance coverage to State and municipal employees.
- b. Modifying existing plans so that they would continue as supplemental retirement systems.
- c. Establishing supplementary systems where none existed.

Elred, Gary W., Factors to be Examined in Terminating a Social Security Coverage Agreement, The Journal of Risk and Insurance, Vol. XLII, No. 3, September 1975--Concludes that termination of State and local coverage agreements is not the best means of dealing with the increasing cost of providing retirement programs. Recommends the restructuring of public retirement plans so that total costs and benefits are at a reasonable level.

Campus Report, Vol. IX, No. 37, (Stanford University), June 15, 1977--Suggested that Stanford University employees stay in social security but that the university should not integrate Teachers Insurance and Annuities/College Retirement Equities Fund (TIAA/CRFF) with social security at the

time of the study. TIAA/CREF should be requested to provide increasing (rather than level) annuities, and other options, including those of limited borrowing against the accumulation before retirement, and of using the accumulation at retirement to purchase annuities from other companies.

Robinson, Robert H., Ph. D., An Analysis of Whether Washington State Should Continue Participation in Social Security Report by the Office of Program Planning and Fiscal Management, State of Washington, (Not dated)--Found that:"

"From the viewpoint of (1) State employees, (2) the State as an employer, and (3) residents of the State, it is not desirable for the State of Washington to withdraw from the social security system. This recommendation is based on the assumption that the State would fully replace any loss in OASDI benefits to its present and future employees due to termination of coverage."

Interim Committee Report, 1969, California State Legislature, Joint Legislative Retirement Committee, Vol. 1, No. 6, issued January 5, 1970--

- a. That there be no termination of the contract with the Social Security Administration by the Public Employees' Retirement System.
- b. That continuing efforts be made to improve the benefit program of the PERS, with particular attention to cost-of-living increases.

The following independent studies do not endorse the social security program:

Report of the Funding Advisory Committee and the Retirement Law Commission to the Governor and General Court of Massachusetts, October 1976--
Recommended Massachusetts should not join the social security system, since participation would not reduce the cost of retirement benefits to the State and local governments without substantial deliberalizations of very liberal retirement system.

Feasibility Study to Terminate Social Security Coverage for State Employees, Prepared by Governors Social Security Task Force, April 1, 1972--An option paper on the issue of terminating social security coverage of California State employees prepared for the Governor. Reviews issue from various angles and provides considerations for and against.

Appendix B

Percent of federal employees who leave the civil service before and after becoming vested for retirement benefits at age 62 (i.e., before and after 5 years' service), and percent upon whose account immediate benefits are paid on separation.

<u>Category</u>	<u>Percent</u>
1) Withdraw with less than 5 years' service	37
2) Withdraw with more than 5 years' service	26
3) Receive immediate benefits upon:	
a) death	3
b) disability	8
c) voluntary retirement	23
d) involuntary retirement	3